

MAINTENANCE, REPAIR & OPERATION SUPPLIES

CONSOLIDATION ANALYSIS (MARKET RESEARCH & SPEND ANALYSIS OVERVIEW)

EXECUTIVE SUMMARY

15 USC § 657q - Consolidation of contract requirements does require a consolidation analysis when two or more requirements for federal goods or services that have been provided under two or more separate contracts will be consolidated under a single or multiple award contract. Based on our commitment to foster small business opportunities, GSA did perform the required consolidation analysis. Although GSA does not necessarily agree that a careful reading of the statute would find it applicable to the Federal Strategic Sourcing Initiative for Maintenance, Repair and Operation Supplies (MRO, herein), it is devoted to ensuring small businesses have solid opportunities to participate as prime contractors or subcontractors.

While the MRO solution does not involve contract bundling, GSA considered the bundling threshold (5% savings on contracts estimated at more than \$94 million) in conducting the consolidation analysis. In addition, GSA took numerous additional steps to ensure small business opportunities. Among these include:

- Engaging industry through GSA Interact web blog site, ensuring the small business voice could be heard regardless of geography.
- Sponsoring of one-on-one listening sessions to allow small business to share its reflections on best ways to establish the acquisition.
- Hosting a partnering session between AbilityOne and Small Business, to confirm small businesses understand how to qualify as an authorized reseller.
- Constructing the MRO product categories to safeguard representation for small business schedule contract holders to compete effectively within and across those categories.
- Reserving the vast majority of awards for small businesses. At a minimum, 16 of the 23 awards will go to small businesses.
- Pursuing and obtaining a waiver to the Non-Manufacturing Rule from the Small Business Administration. This waiver allows for both increased participation of small businesses in the MRO program and greater use by federal agencies. The Waiver allows purchasing agencies using the MRO BPAs to receive small business credit for those purchases of products manufactured by large business and sold by small business to count towards fulfillment of their individual small business purchasing goals.

Extensive market research was conducted by GSA. Based on findings, numerous changes were made to the acquisition strategy to minimize the negative impact on small businesses. Active steps were taken to include small businesses in the MRO acquisition strategy, with the overwhelming majority of awards, 70%, being reserved for small business. GSA examined

several areas which included, but not limited to: cost, quality, acquisition cycle, terms and conditions, performance. Very substantial benefits were found to justify the decision to consolidate in areas of savings, better terms and conditions, reduced cycle time, and enablement of smart shopping. GSA has been successful in implementing similar strategies under the Office Supplies FSSI, currently running over 13% in savings.

15 USC § 657q - Consolidation of contract requirements requires a consolidation analysis when two or more requirements for federal goods or services that have been provided under two or more separate contracts will be consolidated under a single or multiple award contract. Although GSA does not necessarily agree that the statute is applicable to the Federal Strategic Sourcing Initiative for Maintenance, Repair and Operation Supplies (MRO), it is deeply committed to ensuring that small businesses have strong opportunities to participate as prime contractors or subcontractors. To validate these opportunities are provided, GSA has performed the consolidation analysis. This paper documents the following key points:

- a) Extensive market research has been conducted
- b) Alternative contracting approaches involving a lesser degree of consolidation have been identified
- c) Acquisition strategy has been modified to minimize negative impacts on small businesses
- d) Active steps have been taken to include small businesses in the acquisition strategy, including setting aside 16 of the total 23 BPAs for small businesses. Thus, a maximum of 7 of the 23 BPAs could conceivably go to large businesses.
- e) The consolidation is necessary and justified and will result in significant savings to the Federal Government.
- f) For this reason, the Director of the Office of Small Business Utilization has concurred and the Senior Procurement Executive has concluded that the consolidation of contract requirements is necessary and justified.

The MRO market research consisted of several steps in establishing a category profile. The category scope was defined in terms of the range of related maintenance, repair and operational products. Three individual categories were established within that scope to secure broad vendor participation as few vendors provide the full range of MRO products. A category spend analysis was conducted to develop a fact base around how much the government spends, which suppliers it spends with, who the users are, what purchase methods are being used, what frequencies are the purchases being made, etc. GSA worked with customer end-users to document requirements and key drivers of value, to identify process improvement opportunities, and to share internal best practices.

Total MRO spend is ~\$1.6B annually, based on data captured from FY12 FPDS, GSA Advantage!, Department of Defense eMall, and GSA Global Supply spend data. This spend exhibited the following characteristics:

- Spend through GSA makes up 30%, or \$459M (Multiple Award Schedules and GSA Global Supply)
- Small Businesses account for 55% of contract spend within FDPS-NG, or \$340M from a total of \$615M; no one socio-economic category makes up more than 7% of the FPDS-NG spend

- Federal market is highly fragmented: Top 10 vendors account for <15% of spend
- Purchasing of MRO products across the federal government is decentralized, with 32% of purchases occurring on Government Purchase Cards
- Extensive pricing variability exists in the marketplace; GSA list prices within the MRO commodity vary greatly, with up to 50% average variability over the lowest price within a subcategory
- Significant amount of purchases occur at non-competitive levels, or purchases over the median price of a given item
- Currently, vendors are engaged in intense price competition
- Analysis of spend patterns shows a significant savings opportunity based on characteristics described above

While the total MRO spend is ~\$1.6 billion annually, Defense Logistics Agency spend was considered unaddressable and has been removed, leaving the current estimated value for MRO at \$1.2B. As spend increases, GSA will closely monitor performance and will revisit its analysis regarding number of awardees. This will be closely coordinated with the commodity team.

ENGAGEMENT WITH INDUSTRY

GSA maximized opportunity to engage with Industry in order to maintain transparency of the MRO strategic solution's acquisition planning. The intent was to establish a robust communication channel between government and Industry (both large and small concerns) to address questions and issues and to hear recommendations. GSA used a web blog, GSA Interact, as a transparent, open forum for communication with Industry. Relevant information and materials were shared through GSA Interact as it served, and continues to serve, as the main touch point for communication on MRO.

Through the visibility of the GSA Interact blog, the MRO team was successful in conducting follow-up discussions and receiving constructive feedback from Industry. Based upon feedback, updates were made to the BPA categories, Draft RFQ, and market baskets. GSA hosted several industry-engaging events to share information on the MRO strategic solution and how to succeed with government. The open and transparent dialog clearly demonstrated GSA's commitment to building strategic solutions to benefit the taxpayers, federal agencies and the vendor community. Key activities performed to collaborate with Industry to gather feedback on the MRO strategic sourcing include:

- GSA Interact – Ongoing. FSSI Maintenance, Repair and Operations Group, with 1563 industry members, allowed information sharing with thousands of community members from government staff to industry partners. GSA Interact also fostered discussion of views on trending topics, like MRO, to provide a collaborative audience experience
- "Listen to Industry Day" – 1/30/2013. This vendor engagement meeting had 190 registered vendors. The purpose was to engage Industry directly with the MRO Program

Team and key stakeholders of GSA and OFPP, and to share strategies of the MRO solution. Strategies shared included: collecting/reporting data, identifying cost drivers, facilitating ease-of-use, setting aside BPAs to address socio-economic concerns, allowing MRO service providers access to BPA pricing, and ensuring dynamic participation of vendors.

- **Request for Industry White Papers – 2/4/2013.** GSA planned one-on-one sessions with Industry to discuss data collection/reporting, cost drivers, ease of use for customers, service provider participation, fulfillment of government-wide statutory goals, participation of small businesses, and assurance of vendor dynamic participation. Vendors were asked to submit white papers as a prelude to the one-on-one discussions with GSA. The MRO team received 14 white papers (7 were from small businesses) on behalf of this effort.
- **Draft Release of Request for Quotations (RFQ) – 5/13/2013.** GSA released a draft RFQ for Industry review. Industry provided over 27 comments on the GSA blog. These comments were shared among the MRO team for further consideration and implementation into the final RFQ.
- **One-on-One Interviews – 2/2013 - 3/2013.** After receipt of white papers and special requests submitted by Industry, GSA conducted meetings (both face-to-face and phone) from late February through early March. The MRO team conducted 14 interviews with Industry based on their white paper submissions.
- **Information Panel on MRO and MRO at the Coalition for Government Procurement Spring Training Conference – 4/17/2013.** MRO met with Industry at a round table discussion regarding issues such as part number standardization, compression of price variability, and set asides for small businesses.
- **Request for Information (RFI) – 04/15/2013.** To maximize small business opportunity and competition, GSA released an RFI to determine if there were an adequate number of qualified small business Multiple Award Schedule contract holders with offerings under specific MRO NAICS codes. These findings were shared with the Small Business Administration to successfully secure a Non-Manufacturer Waiver to prevent exclusion and allow set-asides for MRO small businesses.
- **Pre-Solicitation Meeting – 5/15/2013.** The Pre-Solicitation was hosted by GSA at the GSA Auditorium with 178 registered vendors. The purpose was to share the developed RFQ MRO strategies with Industry and to capture feedback. The finalized MRO categories, market basket, terms and conditions, and proposed technical evaluation factors were the key areas of discussion. Time was set aside for a question and answer session to address the elements of the RFQ. Recommendations collected were given further consideration and many were incorporated into the final draft of the RFQ.
- **AbilityOne Small Business Partnership Session – 06/05/2013.** In the pre-Solicitation meeting, some small business concerns identified the requirement for AbilityOne approval as a barrier to participation. GSA is fully committed to supporting the AbilityOne

Program through the MRO strategic solution. To facilitate understanding and participation in the AbilityOne program, GSA hosted a Partnership Session between the MRO team, small businesses and AbilityOne. The event garnered participation from 40 small businesses and AbilityOne reports that it saw a significant increase in applications to be AbilityOne authorized resellers.

- Updated Market Basket for Industry Comment - 7/19/2013. In response to industry requests, a revised market basket was shared with Industry for further comment, in advance of the final RFQ. GSA received 5 vendor recommendations on the GSA Interact blog for further consideration. All comments were reviewed and most were incorporated into the final market basket.

SMALL BUSINESS STRATEGY

The MRO strategic solution is based on the offerings available under specific Multiple Award Schedules (MAS). A mapping exercise of the MRO market basket commodities was conducted with the MAS Special Item Numbers (SIN) being used under this strategic solution. The MRO commodities are addressed by MAS Hardware Superstore 51 V; crossing seven separate SINs. Vendors had to be able to address all items defined in the market basket under a specific category to meet technical requirements defined in the RFQ. Below are the findings of the mapping exercise for MRO commodities and vendors under the MAS program:

By MRO Category Offering:

Category 1- Hardware (37 Vendors)

- 13 Other than Small Business
- 24 Small Business
 - 5 Women Owned Small Business
 - 6 Veteran Owned Small Business
 - 1 Disadvantaged Small Business
 - 1 8a
 - 3 Hubzone

Category 2 – Tools and Tool Cabinets (7 Vendors)

- 2 Other than Small Business
- 5 Small Business
 - 1 Veteran Owned Small Business
 - 1 Disadvantaged Small Business

Category 3 – Paints, Adhesives and Sealants (21 Vendors)

- 10 Other than Large Business

- 11 Small Business
 - 1 Disabled Veteran Owned Small Business

From 51 V Small Businesses from a geographic standpoint:

MAS 51 V (Hardware Superstore)

- Region 1- 2 Small Business Total (Massachusetts 2)
- Region 2 – 7 Small Business Total (New York 5, New Jersey 2)
- Region 3 – 4 Small Business Total (Maryland 3, Pennsylvania 1)
- Region 4 – 11 Small Business Total (Tennessee 1, North Carolina 4, Georgia 4, Florida 1, Alabama 1)
- Region 5 – 3 Small Business Total (Minnesota 1, Wisconsin 1, Michigan 1)
- Region 6 – 2 Small Business Total (Iowa 1, Missouri 1)
- Region 7 – 4 Small Business Total (New Mexico 1, Texas 2, Oklahoma 1)
- Region 8 – 1 Small Business Total (Utah 1)
- Region 9 – 5 Small Business Total (California 4, Arizona 1)
- Region 10 – 0 Small Business Total
- Region 11 – 1 Small Business Total (District of Columbia 1)

Spend is consolidated, top 10 vendors account for approximately 15% of spend and only one of those vendors is a small business. In the entire universe of the MRO spend, approximately 5600 vendors fall outside of the top ten and approximately 77% of those vendors are considered small. See Appendix 1.

The MRO solution will solicit a total of 288 contractors among the MAS 51 V schedule. Of those 288 contract holders, 228 are small businesses. Industry has raised concerns on the implementation of MRO. A frequent question pertains to the possible elimination of the MAS contract supporting the MRO strategic solution. Many small business contractors have multiple SINs on their MAS contract to include products which are outside the scope of MRO products. Another matter of interest is the impact of potential reduction in sales for small businesses not chosen as a BPA provider. GSA has considered this potential negative impact on small business but has determined the benefits to be gained through MRO BPAs will outweigh this negative impact.

The MRO solution's structure was developed to ensure small businesses' ability to participate. Market research revealed that small MRO providers often specialize within a MRO sub-segment as opposed to offering the full range of MRO supplies. With this in mind, the solution was designed with three separate categories of products (1- Hardware, 2- Tools and Tool Cabinets, 3-Paints, Adhesives and Sealants) that vendors can receive BPA to provide. The Categories were developed with the dual objectives of (1) being broad enough to allow for adequate sales volume to drive pricing discounts, and (2) being narrow enough to ensure small businesses are not excluded. An investigation of the types of products offered by small businesses holding

Schedule contracts informed the development of these categories. The output of this exercise is above.

Furthermore, GSA took steps to ensure that items required under the BPAs do not limit small businesses' ability to participate in the solution. First, GSA is not requiring vendors to provide specific SKUs; rather, vendors are provided generic item descriptions and will be allowed to quote items within their catalog that meets those descriptions. This is to allow small businesses that may not have access to certain popular manufacturers to still be able to participate in the solution. Secondly, GSA removed specialty products from the market basket that could be challenging for small businesses to provide. For example, items on the Qualified Product List (QPL) or considered MIL-Spec items are excluded.

Beyond structuring the MRO solution and developing its requirements to be small business friendly, GSA is also setting aside BPAs that can only be awarded to Small Businesses or Service-Disabled Veteran Owned Small Businesses. At least 70% of the possible 23 BPAs are set aside to ensure that the volume of MRO sales that is currently going small businesses remains the same or increases. As approved by the MRO Commodity Team, the finalized categories and BPA set asides will be structured as follows to allow for breadth and depth of item coverage within a given category.

CATEGORY	VENDOR SIZE/SOCIO ECONOMIC STATUS REQUIREMENTS		
	TOTAL # OF BPAs	UNRESTRICTED	SMALL BUSINESS
Hardware	11	3	4
Tools & Tool Cabinets	6	2	3
Paints, Adhesives & Sealants	6	2	4
TOTAL:	23	7	14

GOVERNMENT SAVINGS STRATEGY

Maintaining status quo will not promote savings or efficiencies for government agencies or the taxpayer. There is significant de-centralized purchasing of maintenance, repair and operational items across federal government. Thousands of items are currently purchased from hundreds of different vendors across all socioeconomic categories. Approximately 32% of total MRO spend is done through government purchase cards. The majority of purchases placed are by non-acquisition professionals. Individual agencies have established their own contracts for maintenance, repair and operational items with varying pricing using the MAS as the benchmark. However, under these contracts, there is a large range of available prices with a high volume of full retail prices. Analysis of customer buying patterns revealed agencies are

generally not purchasing at the lowest price available. In the current model of the MAS program, the same 1.5lb Claw Hammer is currently available from 22 vendors with vendor catalog pricing ranges from \$71.88 to \$121.42.

We have considered other approaches to include, among others, establishing single agency contracts/BPAs, placing orders against current MAS, full and open single award contracts etc. While these alternative contract approaches require less consolidation, they would reveal significantly less cost savings than the estimated 11% savings benefit for the Government under the MRO solution.

The first generation MRO solution will implement tactics to drive savings for the federal government and taxpayers.

1. Reduce prices:

- Develop BPAs based on commodity categories to leverage government-wide volume to negotiate lower prices with providers
- Establish point-of-sale discounts to ensure access to low pricing
- Extend BPA pricing to service providers and they pass savings on to the customer
- Engage in dynamic pricing, which is active post-award price management that requires monitoring product list prices offered in the federal market and working with BPA holders to ensure competitive FSSI prices

2. Narrow price ranges:

- Eliminate "non competitive" prices to ensure customers are purchasing at the lower end of current price range
- "Non competitive" pricing will not be posted within the GSA Advantage!® portal

3. Enable smart shopping:

- Standardize part numbers to improve ease of comparison shopping

Savings will be generated from negotiated lower pricing, point-of-sale discounts, and dynamic pricing management. The first generation is estimated to have savings of 11% or greater. The first year savings are expected to be ~\$16M, growing each year through increased compliance.

MRO ESTIMATED POTENTIAL SAVINGS METHODOLOGY

To date, 6 agencies or agency components have committed to using the FSSI for MRO. Together, this is indeed a substantial administrative savings, driven by a significant reduction in contract duplication, reduction in proposal/solicitation costs, and an increase in time for acquisition professionals to work on mission priorities. Additionally, the Government-wide MRO BPAs will create savings by (1) leveraging government-wide volume to negotiate lower prices with suppliers and (2) establishing point-of-sale discounts to ensure access to the lower prices

(Government customers will be able to walk into a brick & mortar store and get BPA pricing). Potential savings from these tactics were estimated based on pricing analysis benchmarks from a similar sourcing solution, FSSI Office Supplies Generation II (OS2). The pricing analysis compared prices offered through the Government-wide BPAs to prices offered through other channels for procuring goods (GSA Schedule contracts, other Agency contracts, Global Supply, and open market retail). The FSSI Office Supplies Generation II (OS2) is a reasonable comparison base as both Office Supplies and MRO are low dollar commodity items most frequently acquired through purchase cards with notable vendor overlap.

Procurement Channel	Savings Rate	Annual Spend (\$M)
GSA Schedule Contracts	9%	\$235
Other Agency Contracts	7%	\$509
Global Supply	9%	\$186
Open Market Retail	24%	\$230
Overall MRO	11% <i>(blended rate)</i>	\$1,160 <i>(Total Addressable Spend)</i>

The above analysis found a blended potential savings rate of 11%. Under OS2, actual savings rates average 13%, further validating the estimated potential savings rate of the MRO solution. In order to achieve this level of savings, the solution will require upfront agency commitments, part number standardization requirements, point-of-sale requirements, and plans to actively manage BPA prices post-award via the dynamic pricing model.

The potential savings rate (around 11%) is based on establishing 23 BPAs. As a secondary level of analysis, GSA also performed an assumptive analysis of savings at different numbers of awardees. To perform this analysis, GSA used MAS list pricing, analyzing average pricing for the top ~2,000 items at different numbers of awards. GSA found a direct relationship between number of awardees and savings. Limiting MRO to 10 awards would have meant savings of around 17%, while increasing this to 30 awards would have reduced the savings to 5%. This secondary analysis further supports GSA's proposed 23 MRO awardees as a reasonable balancing of cost savings opportunities while mitigating impact on small business. See Appendix 2.

Providing further support for the MRO solution's estimated potential savings are a series of GAO audit reports and congressional testimony. In GAO audit 12-178, looking at GSA's study on office supply pricing, while noting certain data limitations, GAO found that strategic sourcing was generating savings. They further noted that DHS, Air Force, and Navy all reported that FSSI Office Supplies was saving them money, anywhere from 6 to 20%. Since then, GAO has

issued a series of further audits on strategic sourcing, restating the potential for significant savings.

CONCLUSION

GSA has conducted extensive market research to include one-on-one meetings, interviews, and highly public posting through GSA Interact and has shared drafts of the RFQ and Market Baskets with Industry for feedback and recommendations. In addition, GSA facilitated an open dialogue and training for small businesses to become familiar with AbilityOne.

GSA started with a broader snapshot in this consolidation, then removed services, QPL items, and MILSPEC items. These modifications were made specifically with the intent of minimizing impact on small businesses.

Through the market research and industry engagement, GSA reduced the number of proposed categories and increased the number of awards to create more opportunities for small businesses. GSA also worked with SBA to obtain a waiver to the non-manufacturer rule to increase the ability of small businesses to compete.

Through this consolidation, GSA estimates savings of 11%. Other benefits include part number standardization to enable smart shopping, reductions in contract duplication, and improvements in ease of use for Federal Employees.

GSA has conducted extensive mapping exercises of the MRO commodities. GSA has met with SBA to discuss MRO strategies to promote opportunities for small businesses in this arena.

GSA examined benefits which included cost, quality, acquisition cycle, terms and conditions, and other benefits. We found very substantial benefits justifying the decision to consolidate in areas of savings, better terms and conditions, reduced cycle time, and enablement of smart shopping. Savings on the Office Supplies FSSI are currently running over 13%. While the MRO solution does not involve contract bundling, GSA considered the bundling threshold (5% savings on contracts estimated at more than \$94 million) in conducting the consolidation analysis. Ensuring small business opportunity is a paramount concern of GSA and is well reflected in the acquisition strategy. Furthermore, GSA is taking the best practices shared by Industry and applying them in MRO Purchasing channel and the upcoming Requisition channel. Based on feedback, we are treating Requisition as a separate channel to further increase opportunity for small businesses and to increase total number of BPAs established under the MRO strategic solution.

Although GSA does not necessarily agree that a careful reading of the statute, 15 USC § 657q, would find it applicable to the Federal Strategic Sourcing Initiative for MRO, it is strongly committed to ensuring that small business have strong opportunities to participate as prime contractors or subcontractors.

Concurrence:

Concurrence in separate email

Date

Office of General Counsel

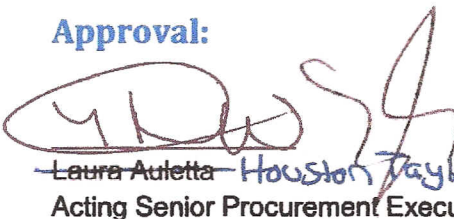
Concurrence in separate email

Date

Jiyoung Park

Director, Office of Small Business Utilization

Approval:

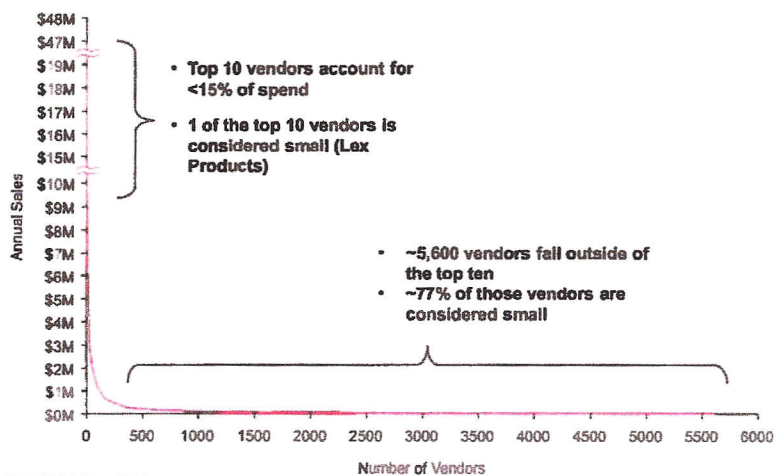

~~Laura Auletta~~ Houston Taylor
Acting Senior Procurement Executive

Oct 1, 2013
Date



MRO vendor spend distribution and small business participation

MRO Vendor Spend Distribution

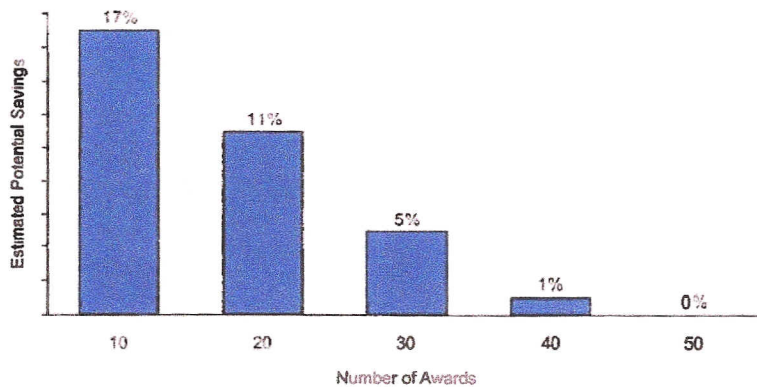


Source: FY12 FPDS Spend Data



As the number of MRO awards increases the estimated potential savings decrease

MRO Estimated Potential Savings and Number of Awards



Source: OS2 Pricing Analysis and Savings Benchmarks; FY11 GSA Advantage Spend Data